

VZCZCXRO7492

OO RUEHAG RUEHAST RUEHBI RUEHCI RUEHDA RUEHDF RUEHFL RUEHIK RUEHKW
RUEHLA RUEHLH RUEHLN RUEHLZ RUEHNEH RUEHNP RUEHPOD RUEHPW RUEHROV
RUEHSR RUEHVK RUEHYG
DE RUEHTA #2391/01 3381325
ZNR UUUUU ZZH
O 031325Z DEC 08
FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4024
INFO RUCNCIS/CIS COLLECTIVE 0885
RUCNCLS/SOUTH AND CENTRAL ASIA COLLECTIVE
RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 0290
RUEHKO/AMEMBASSY TOKYO 0992
RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEAIIA/CIA WASHDC
RHEFAAA/DIA WASHDC
RHEHNSC/NSC WASHDC 0452
RUEKJCS/SECDEF WASHDC 0367
RUEKJCS/JOINT STAFF WASHDC

UNCLAS SECTION 01 OF 02 ASTANA 002391

SENSITIVE
SIPDIS

STATE FOR SCA/CEN, EUR/CARC
STATE PLEASE PASS TO USTDA DAN STEIN

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [ECON](#) [EIND](#) [ENRG](#) [ETRD](#) [BEXP](#) [BTIO](#) [KZ](#)

SUBJECT: GE REGIONAL CEO DISCUSSES TRADE AND INVESTMENT
OPPORTUNITIES IN KAZAKHSTAN

REF: ASTANA 2290

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On November 26, DCM and energyoff met Ron Pollett, President and CEO of General Electric (GE) Russia/CIS, who said that GE will break ground in 2009 on a locomotive production facility in Astana. Konstantin Nazarov, GE country director for Kazakhstan, also attended the meeting. Pollett reported that GE signed contracts valued at \$2.5 billion with the government of Kazakhstan to produce 300 Evolution-series locomotives (\$700 million), provide service operations and maintenance for the locomotives (\$1 billion), and supply advanced signaling technology (\$800 million). In addition, GE has a separate agreement to refurbish and modernize Russian-made locomotives at a cost of \$500 million over 10 years. GE is also exploring opportunities in natural gas transportation (for gas compressor stations), health care, and water treatment. END SUMMARY.

LOCOMOTIVES THE ENGINE OF GROWTH FOR GE

13. (SBU) Pollett informed DCM that locomotive sales and modernization work, coupled with multi-year service agreements, were GE's biggest business in Central Asia. He said that GE will break ground in 2009 on its new locomotive production facility in Astana and expects the first Evolution-series locomotive made in Kazakhstan to roll off the assembly line in 2010. GE will produce 300 locomotives in Kazakhstan over a 15-20 year period at a total cost of \$700 million, with an additional \$1 billion for service and maintenance costs. (NOTE: The Evolution diesel locomotive is powered by the GEVO 12-cylinder engine, which delivers power equivalent to the older 16-cylinder engine, while consuming less fuel and producing fewer emissions. END NOTE). Pollett said GE would "love to export locomotives to Russia" and help Kazakhstan become more of a regional transit corridor, but he was skeptical the Russian government would allow a foreign competitor, even one sourced in Kazakhstan, to enter the Russian domestic market.

14. (SBU) In addition to the locomotive deal, GE signed a contract with Kazakhstan's national railway valued at \$500 million over 10 years to modernize or upgrade existing Russia-made locomotives. He also said that GE signed a contract worth \$800 million to provide

Kazakhstan with an advanced navigation and signaling system that will enable satellite-controlled management of the locomotive fleet.

NATURAL GAS PIPELINE CONTRACT

15. (SBU) GE is pursuing other business opportunities in Kazakhstan, most notably a multi-million deal to provide compressor stations for a natural gas pipeline from Uzbekistan through Kazakhstan to China. Pollett said that GE has already signed contracts with the governments of Uzbekistan and China to provide the compressors, but has not yet reached agreement with Kazakhstan. Other business opportunities for GE include water treatment projects in Almaty and Astana and aircraft engine manufacturing. (NOTE: Pollett said GE convinced the government of Kazakhstan not to issue a contract to Rolls-Royce for new aircraft engines and he reported that the deal is "stuck" with the Ministry of Transportation. END NOTE).

KEY DECISIONS REST WITH SAMRUK-KAZYNA

16. (SBU) Pollett said that many decisions now rest with Kairat Kelimbetov, currently Chairman of the Samruk-Kazyna National Welfare Fund and formerly Head of the Presidential Administration and Minister of the Economy and Budget Planning. Pollett mentioned that he met Kelimbetov the morning of November 26 to press for a quick decision on the gas compressor contract, but did not receive a firm commitment. According to Pollett, Kelimbetov told him that major new projects have been delayed 6-12 months due to the ongoing financial crisis and the transition of people and power to Samruk-Kazyna. For example, Pollett indicated that Sir Richard Evans, former Chairman of British Aerospace, BAE Systems, and Samruk, remains an independent director of Samruk-Kazyna, but is no longer in the inner circle of the company's top management. Pollett

ASTANA 00002391 002 OF 002

also said the new leaders of Samruk-Kazyna -- in particular Kelimbetov, Deputy Chairmen Arman Dunaev and Timur Kulibayev, and Management Board Chairman Kanat Bozumbayev -- are working on a corporate strategy, but "are not sure themselves how it will play out." He told DCM that GE previously provided training on holding company management issues to Samruk executives "and they loved it." GE will propose similar training to Samruk-Kazyna at its next executive committee meeting in Kazakhstan on December 9-10.

CORRUPTION ALLEGATIONS IN HEALTH CARE SECTOR

17. (SBU) Turning to the health care industry, Pollett noted that GE Healthcare is a \$17 billion business with expertise in imaging technology, medical diagnostics, and patient monitoring systems and is eager to enter the Central Asian market. Unfortunately, according to Pollett, the health care sector in Kazakhstan is "extremely corrupt. Everyone is in the pocket of Siemens," a German competitor. For example, GE would like to establish a nation-wide prenatal care system in Kazakhstan, but cannot make any headway with the Ministry of Health. The recent removal of the Minister following criticism by President Nazarbayev (reftel) has not helped to reassure foreign investors, Pollett observed.

INVESTMENT CLIMATE "BETTER THAN RUSSIA"

18. (SBU) Commenting on the overall investment climate, Pollett said, "It's much easier doing business in Kazakhstan than in Russia. There is less domestic competition and there is no negative reaction to us being an American company." He did, however, complain about delays in obtaining work permits for foreign staff working in Kazakhstan. For example, an American whom GE hired to manage the Astana locomotive plant recently waited nine months for a work permit. Pollett, who is president of the American Chamber of Commerce in Russia, said GE would be willing to work with the AmCham in Kazakhstan to raise this and other investment climate issues with the government. In Pollett's opinion, however, the Ministry of Labor and Social Protection will not change the procedures for issuing work permits "unless they get an order from the top."

MILAS